

**LYON COUNTY ECONOMIC
DEVELOPMENT CONSORTIUM**

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
SCHEDULE OF FINDINGS**

DECEMBER 31, 2007

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LYON COUNTY ECONOMIC DEVELOPMENT CONSORTIUM

OFFICIALS/MEMBERS

2007

<u>Name</u>	<u>Title</u>	<u>Representing</u>	<u>Term</u>
Leonard Vanden Bosch	President	City of Larchwood	Calendar Year 2007
Dennis Thielvoldt	Vice-President	City of Alvord	Calendar Year 2007
Mark Behrens	Member	Lyon County	Calendar Year 2007
Robert Gerber	Member	City of Lester	Calendar Year 2007
Ivan Staufacker	Member	City of George	Calendar Year 2007
Gary Broesder	Member	City of Rock Rapids	Calendar Year 2007
George Bradley	Member	City of Doon	Calendar Year 2007
Jerry Stubbe	Secretary	Appointed	Calendar Year 2007
Steve Wells	Financial/Loan Advisor	Appointed	Calendar Year 2007
Julie Metzger	Treasurer	Appointed	Calendar Year 2007

*The Cities of Little Rock and Inwood did not appoint a representative to the Consortium in calendar year 2007.

DE NOBLE & COMPANY PC

Certified Public Accountants

MEMBERS

111 S. Story Street
Rock Rapids, IA 51246

American Institute - Certified Public Accountants
Private Companies Practice Section
Iowa Society - Certified Public Accountants

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Independent Auditor's Report

To the Officials/Members of the Lyon County Economic Development Consortium:

We have audited the accompanying financial statements of the governmental activities and each major fund of the Lyon County Economic Development Consortium (LCEDC), as of and for the calendar year ended December 31, 2007, which collectively comprise the Consortium's basic financial statements listed in the table of contents. These financial statements are the responsibility of Lyon County Economic Development Consortium's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the Lyon County Economic Development Consortium at December 31, 2007, and the respective changes in financial position for the calendar year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2008 on our consideration of the Lyon County Economic Development Consortium's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 4 through 8 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

De Noble & Company PC

De Noble & Company PC
Certified Public Accountants

October 24, 2008

Lyon County Economic Development Consortium Management's Discussion & Analysis

Lyon County Economic Development Consortium provides this Management's Discussion and Analysis of its annual calendar year financial statements. This narrative overview and analysis of the financial activities is for the calendar year ended December 31, 2007. We encourage readers to consider this information in conjunction with the Consortium's financial statements, which follow.

2007 Financial Highlights

- Governmental Funds interest on notes receivables revenues decreased by 5.4% or \$1,186 from calendar year 2006 to calendar year 2007. The interest on notes receivables revenues decreased from \$21,806 to \$20,620.
- There was no member funding received or billed by the Consortium in calendar year 2007.
- Governmental Funds expenditures increased by \$122,337 from calendar year 2006 to calendar year 2007. The Governmental Funds expenditures increased from \$24,278 to \$146,615. The main increase was due to uncollectible notes receivable expense of \$122,874.
- The total Governmental Funds net assets decreased 18.9% or \$124,044 from December 31, 2006 to December 31, 2007. The Governmental Funds net assets decreased from \$655,840 to \$531,796 due mainly to the aforementioned uncollectible notes receivable expense.
- The total governmental activities net assets decreased 30.6% or \$111,206 from December 31, 2006 to December 31, 2007. The governmental activities net assets decreased from \$363,656 to \$252,450.

Using this Annual Report

The annual report consists of a series of financial statements and other information, as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Consortium's financial activities.
- The Government-Wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These statements provide information about the activities of the Consortium as a whole and present an overall view of the Consortium's finances.
- The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the Lyon County Economic Development Consortium's operations in more detail than the government-wide statements by providing information about the funds.
- Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Reporting the Consortium's Financial Activities

Government-Wide Financial Statements

One of the most important questions asked about the Consortium's finances is "Is the Consortium as a whole better off or worse as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information which helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

The Statement of Net Assets presents all of the Consortium's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases or decreases in the Consortium's net assets may serve as a useful indicator of whether the financial position of the Consortium is improving or deteriorating.

The Statement of Activities presents information showing how the Consortium's net assets changed during the most recent calendar year. All changes in net assets are reported as soon as the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

The Consortium's governmental activities are presented in the Statement of Net Assets and the Statement of Activities. Governmental activities include loan programs and administration and general. Investment earnings currently finance most of these activities. The Consortium has no business type activities.

Fund Financial Statements

The Consortium has one kind of funds (which are separated into two funds):

- 1) Governmental Funds account for the Consortium's basic services. These focus on how money flows into and out of these funds, and the balances left at year-end that are available for spending. The Governmental Funds include: 1) the General Fund and 2) the Special Revenue Fund (Intermediary Relending Program Revolving Fund). These funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The Governmental Fund financial statements provide a detailed, short-term view of the Consortium's general governmental operations and the basic services it provides. Governmental Fund information helps one determine whether there are more or fewer financial resources that can be spent in the near future to finance the Consortium's program.

The required financial statements for Governmental Funds include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in the net assets for governmental activities from a year ago.

Net Assets of Governmental Activities

	<u>December 31, 2007</u>	<u>December 31, 2006</u>
Current Assets	\$ 197,552	\$ 241,199
Notes Receivable	335,299	417,016
Total Assets	<u>532,851</u>	<u>658,215</u>
Long-Term Debt Outstanding	278,380	292,436
Other Liabilities	2,021	2,123
Total Liabilities	<u>280,401</u>	<u>294,559</u>
Net Assets:		
Restricted	40,617	160,821
Unrestricted	<u>211,833</u>	<u>202,835</u>
Total Net Assets	<u>\$ 252,450</u>	<u>\$ 363,656</u>

Net assets of the Lyon County Economic Development Consortium's governmental activities decreased from calendar year 2006 by \$111,206, due mainly to notes receivable that were expenses as uncollectible in 2007. Restricted net assets represent resources that are subject to external restrictions (Intermediary Relending Program Revolving Purposes). Unrestricted net assets is the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, legislation or other legal requirements.

Changes in Net Assets of Governmental Activities

	<u>Year Ended December 31, 2007</u>	<u>Year Ended December 31, 2006</u>
Revenues:		
Program Revenues:		
Charges for Service	\$ 350	\$ 1,732
General Revenues:		
Unrestricted Investment Earnings	<u>20,901</u>	<u>25,104</u>
Total Revenues	<u>21,251</u>	<u>26,836</u>
Program Expenses:		
Note Issuance Fees	1,240	1,452
Administration & General	5,521	5,845
Interest on Long-Term Debt	2,822	2,979
Uncollectible Notes Receivable Expense	<u>122,874</u>	<u>0</u>
Total Expenses	<u>132,457</u>	<u>10,276</u>

Increase (Decrease) in Net Assets	(111,206)	16,560
Net Assets Beginning of Year	<u>363,656</u>	<u>347,096</u>
Net Assets End of Year	<u>\$ 252,450</u>	<u>\$ 363,656</u>

Revenues and expenses for calendar year 2007 are significantly different than calendar year 2006 mainly due to the reduction of interest income on notes receivable and the uncollectible notes receivable expense during calendar year 2007.

Individual Major Fund Analysis

The Lyon County Economic Development Consortium uses fund accounting to ensure and demonstrate compliance with finance-related requirements.

General Fund Analysis

The General Fund showed an increase in fund balance in calendar year 2007 of \$8,660, from \$202,827 to \$211,487. This compares to a \$7,507 increase in fund balance during calendar year 2006. The main reason for the increase is due to more interest income received on notes receivable. The overall change in fund balance in calendar year 2007 was due to normal operations (mainly interest income exceeding administrative and general expenditures).

Intermediary Relending Program Revolving Fund Analysis

The Intermediary Relending Program Revolving Fund showed a decrease in fund balance in calendar year 2007 of \$132,704, from \$453,013 to \$320,309. This compares to a \$6,064 decrease in fund balance during calendar year 2006. The main reason for the decrease is due to less interest income received on notes receivable and to the expensing of notes receivable deemed uncollectible.

Budgetary Highlights/Capital Assets

The Consortium does not adopt a financial budget and does not own any capital assets.

Debt Administration

At December 31, 2007, the Consortium has a promissory note with the USDA/Rural Development in the amount of \$278,380 (compared to the December 31, 2006 balance of \$292,436). The note is to be fully repaid in year 2025 and carries a 1% rate of interest. Additional information about this long-term debt is presented in Note 5 to the financial statements.

Economic Factors

The Lyon County Economic Development Consortium is dependent on the economic health of the Lyon County, Iowa businesses that have been loaned money (the ability of these businesses to make payments on their notes).

Contacting the Consortium's Financial Management

This financial report is designed to provide the citizens of Lyon County, borrowers, and creditors with a general overview of the Consortium's finances and to show the Consortium's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Steve Wells at (712) 472-9100.

Lyon County Economic Development Consortium
Basic Financial Statements

Lyon County Economic Development Consortium
Statement of Net Assets
December 31, 2007

	<u>Governmental Activities</u>
Assets	
Cash	\$ 137,695
Cash – Debt Reserve	16,980
Cash – Loan Loss Reserve	40,000
Prepaid Insurance	320
Interest Receivable	2,557
Notes Receivable (Net of Allowance for Doubtful Accounts)	<u>335,299</u>
Total Assets	<u>532,851</u>
Liabilities	
Accrued Interest Payable	2,021
Long-Term Liabilities:	
Portion Due or Payable Within One Year:	
Note Payable – USDA	14,196
Portion Due or Payable After One Year:	
Note Payable – USDA	<u>264,184</u>
Total Liabilities	<u>280,401</u>
Net Assets	
Restricted for:	
Intermediary Relending Program Revolving Purposes	40,617
Unrestricted	<u>211,833</u>
Total Net Assets	<u><u>\$ 252,450</u></u>

See Notes to Financial Statements.

Lyon County Economic Development Consortium
Statement of Activities
December 31, 2007

	Expenses	Program Revenues Charges for Service	Net (Expense) Revenue & Changes In Net Assets
Functions/Programs:			
Governmental Activities:			
Note Issuance Fees	\$ 1,240	350	(890)
Administration & General	5,521	0	(5,521)
Interest on Long-Term Debt	2,822	0	(2,822)
Uncollectible Notes Receivable Expense	122,874	0	(122,874)
Total	<u>\$ 132,457</u>	<u>350</u>	<u>(132,107)</u>
General Revenues:			
Unrestricted Investment Earnings			<u>20,901</u>
Change in Net Assets			(111,206)
Net Assets Beginning of Year			<u>363,656</u>
Net Assets End of Year			<u><u>\$ 252,450</u></u>

See Notes to Financial Statements.

**Lyon County Economic Development Consortium
Balance Sheet
Governmental Funds
December 31, 2007**

	General Fund	Special Revenue Intermediary Relending Program Revolving Fund	Total
<u>Assets</u>			
Cash	\$ 18,234	119,461	137,695
Cash – Debt Reserve	0	16,980	16,980
Cash – Loan Loss Reserve	0	40,000	40,000
Prepaid Insurance	320	0	320
Interest Receivable	1,251	1,306	2,557
Due From Other Fund	0	1,032	1,032
Notes Receivable (Net of Allowance for Doubtful Accounts)	193,059	142,240	335,299
Total Assets	\$ 212,864	321,019	533,883
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Due to Other Fund	\$ 1,032	0	1,032
Deferred Revenue – Interest Income	345	710	1,055
Total Liabilities	1,377	710	2,087
Fund Balances:			
Reserved For:			
Debt Reserve	0	16,980	16,980
Loan Loss Reserve	0	40,000	40,000
Notes Receivable	188,832	136,284	325,116
Unreserved:			
Undesignated	22,655	127,045	149,700
Total Fund Balances	211,487	320,309	531,796
Total Liabilities and Fund Balances	\$ 212,864	321,019	533,883

See Notes to Financial Statements.

**Lyon County Economic Development Consortium
Reconciliation of the Balance Sheet –
Governmental Funds to the Statement of Net Assets
December 31, 2007**

Total Governmental Fund Balances (page 12)	\$ 531,796
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*Amounts reported for governmental activities in the Statement of Net Assets
are different because:*

Other long-term assets (interest receivable for calendar year 2007) that produce revenues are not available to pay current period expenditures and, therefore, are deferred in the Governmental Funds.	1,055
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Long-term liabilities (accrued interest payable and note payable – USDA for calendar year 2007) are not due and payable in the current period and, therefore, are not reported in the Governmental Funds.	<u>(280,401)</u>
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Net Assets of Governmental Activities (page 10)	<u>\$ 252,450</u>
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See Notes to Financial Statements.

Lyon County Economic Development Consortium
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended December 31, 2007

	General Fund	Special Revenue Intermediary Relending Program Revolving Fund	Total
Revenues:			
Interest on Notes Receivable and Bank Accounts:			
I.R.P. Related Notes Receivable	\$ 0	10,386	10,386
Non I.R.P. Related Notes Receivable	10,234	0	10,234
Interest Bearing Bank Accounts	177	1,424	1,601
Loan Application & Documentation Fees	0	350	350
Total Revenues	10,411	12,160	22,571
Expenditures:			
Bank Charges	27	20	47
Insurance	1,104	0	1,104
Professional Fees (Audit)	0	4,230	4,230
Legal/Filing Fees (Note Receivable Issuances)	620	620	1,240
Audit Filing Fee	0	100	100
Postage	0	8	8
Supplies	0	32	32
Notes Payable Interest	0	2,924	2,924
Notes Payable Principal	0	14,056	14,056
Uncollectible Notes Receivable Expense	0	122,874	122,874
Total Expenditures	1,751	144,864	146,615
Net Change in Fund Balances	8,660	(132,704)	(124,044)
Fund Balances: January 1, 2007	202,827	453,013	655,840
Fund Balances: December 31, 2007	\$ 211,487	320,309	531,796

See Notes to Financial Statements.

Lyon County Economic Development Consortium**Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances -
Governmental Funds to the Statement of Activities
Year Ended December 31, 2007**

Net Change in Fund Balances - Total Governmental Funds (page 14) \$ (124,044)

**Amounts reported for governmental activities in the Statement of Activities
are different because:**

Because some revenues will not be collected for several months after the Consortium's year end, they are not considered available revenues and are deferred in the Governmental Funds. The resulting timing difference is as follows:

Notes receivable interest (1,320)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in Governmental Funds as follows:

Interest on long-term debt 102

Current year repayment of long-term liabilities is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the Statement of Net Assets

14,056

Changes in Net Assets of Governmental Activities (page 11) \$ (111,206)

See Notes to Financial Statements.

Lyon County Economic Development Consortium
Notes to Financial Statements
December 31, 2007

1) Summary of Significant Accounting Policies

The Lyon County Economic Development Consortium (LCEDC) was organized and incorporated under Section 504A of the Code of Iowa as a Non-Profit Corporation on May 17, 1989 as a separate entity for all legal purposes. The organization consists of representatives from Lyon County and the various communities within the political boundary of Lyon County, Iowa, joined together for the implementation of economic development projects within the County. Local governments of the area jurisdiction entered into the Consortium for intergovernmental cooperation by the virtue of the powers granted them by Chapter 28E of the Code of Iowa.

The LCEDC's mission of implementing economic development projects within Lyon County is being accomplished by the lending of monies to businesses located in Lyon County, Iowa, for various economic development projects at a reasonable rate of interest. The economic conditions in Lyon County, Iowa, and the surrounding area of Northwest Iowa, Southwest Minnesota, and Southeast South Dakota affect significantly on the businesses abilities to make the amortized note receivable payments to the LCEDC.

The financial statements of the LCEDC have been are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, the Lyon County Economic Development Consortium has included all funds, organizations, agencies, boards, commissions, and authorities. The LCEDC has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the LCEDC are such that exclusion would cause the LCEDC's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the LCEDC to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the LCEDC. Criteria also can include an organization's fiscal dependency on the Consortium or if it would be significantly misleading to exclude an organization because of its relationship with the Consortium. The LCEDC has no component units which meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation

Government-Wide Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all the activities of the Consortium. For the most part, the effect of interfund activity has been removed from these statements. Consortium activities are supported primarily by interest received on loans issued to businesses,

investment interest, loan application and documentation fees and member contributions (in the past).

The Statement of Net Assets presents the Consortium's assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories.

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets. The Consortium has no capital assets and therefore, no amount is invested in capital assets, net of related debt.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation. The Consortium's net assets are restricted through requirements of the U.S.D.A./Rural Development.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for the governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The Consortium reports the following major governmental funds:

General Fund – The General Fund is the general operating fund of the Consortium. Contributions agreed to by the different communities and Lyon County are accounted for in this fund, as well as all interest received on notes made to development projects that are not accounted for through the Intermediary Relending Program, interest received on monies on deposit (not required to be included in the Intermediary Relending Program Revolving Fund) and other income not allocated by law or contractual agreement to the other fund. From the fund are paid the general operating expenditures needed to operate the Consortium and fixed charges that are not paid from the other fund.

Special Revenue: Intermediary Relending Program Revolving Fund – The Intermediary Relending Program Revolving Fund (I.R.P.) accounts for all funds derived from the I.R.P. agreement with the U.S. Department of Agriculture/Rural Development, the Consortium's local match to the I.R.P., the subsequent lending for economic development projects, the

receipt of principal and interest on notes receivable paybacks from these projects, bank account interest earned on this money, related loan and application and documentation fees, and the disbursement of funds for allowable costs and eventual payment of principal to the U.S.D.A./Rural Development for the monies borrowed through the I.R.P.

C. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Consortium considers revenues to be available if they are collected within 60 days after year end.

To properly account for the notes receivable, the notes receivable are also shown on the LCEDC's Balance Sheet (Governmental Funds), even though some of the notes receivable balance is not considered to be a current asset. Although all the notes receivable balance is measurable, some of the notes receivable balance is not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period (within sixty days after the end of the calendar year). The account, fund balances - reserved for notes receivable, represents the amount of the notes receivable and the resulting fund balance that is not available within the current period or soon enough thereafter to be used to pay liabilities of the current period (see Note 4 for notes receivable amounts).

Interest and loan application/documentation fees are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the Consortium.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt is recorded as an expenditure only when payment is due.

The Consortium maintains its financial records on the cash basis. The financial statements of the Consortium are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the financial statements:

Cash

The Consortium has its cash invested in interest bearing bank accounts located in banking institutions within Lyon County. The Consortium also earns interest on direct notes receivable (see Note 4). The interest earned on the cash accounts and notes receivable is recorded and maintained in the appropriate funds.

Prepaid Insurance

Prepaid insurance represents insurance coverage that will benefit a future calendar year. Prepayments are recorded as expenses/expenditures when utilized rather than when paid for.

Due from and Due to Other Fund

During the course of its operations, the Consortium occasionally has transactions with bank accounts that are designated as a part of the General Fund or the Intermediary Relending Program Revolving Fund, but the related disbursement should have been paid from the other fund. Also, the Consortium occasionally loans money between the two funds. To the extent that these transactions had not been properly transferred from a General Fund bank account to an Intermediary Relending Program Revolving Fund bank account as of December 31, 2007, a balance of an interfund amount receivable and payable has been recorded in the fund financial statements (there was a \$7,000 loan from the Intermediary Relending Program Revolving Fund to the General Fund during calendar year 2007 that was repaid during 2007). There is no interest being charged between the funds on any of the interfund transactions or the loan.

Capital Assets

The Consortium does not own any capital assets.

Deferred Revenue – Interest Income

Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue – interest consists of accrued interest receivable not collected within sixty days after year end.

Long-Term Liabilities

In the government-wide financial statements, long-term debt is reported as a liability in the governmental activities column of the Statement of Net Assets.

E. Budget

The LCEDC's officials do not annually adopt a financial budget for its financial activities. A proposed Intermediary Relending Program Revolving Fund budget was submitted to the U.S.D.A./Rural Development for calendar year 2007 as necessitated by the Intermediary Relending Program reporting requirements. However, this budget is intended to meet Intermediary Relending Program requirements only, not to be used as a financial analysis

tool. Accordingly, there is no reporting or disclosure of any budget figures for calendar year 2007.

2) Cash (Bank Deposits/Investments)

The LCEDC's deposits in banks at December 31, 2007 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The LCEDC is authorized by statute and its written investment policy to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the LCEDC's officials/members; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; and certain joint investment trusts.

The LCEDC has no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

3) Due from and Due to Other Funds

The detail of interfund receivables and payables at December 31, 2007 is as follows:

Receivable Fund	Payable Fund	Amount
Special Revenue:		
Intermediary Relending		
Program Revolving	General	<u>\$ 1,032</u>

The \$1,032 of interfund receivables and payables is for insurance premiums that were paid from Intermediary Relending Program Revolving Fund bank accounts but should have been paid from General Fund bank accounts.

4) Notes Receivable

The LCEDC lends money for various economic development projects to businesses located within Lyon County, Iowa.

The notes receivable issued carry an interest rate that ranges from 4.5% to 5.5%. The terms of the notes are generally amortized for pay back over five to ten years. The amounts shown on the balance sheet as of December 31, 2007 reflect the amounts due on those notes receivable as of that date and are computed as follows:

	General Fund	I.R.P. Revolving Fund	Total (Memorandum Only)
Balance on December 31, 2006	\$ 164,330	252,686	417,016
New Notes Issued:			
Calendar Year 2007	50,000	74,000	124,000
Payments on Principal:			
Calendar Year 2007	(21,271)	(61,572)	(82,843)
Allowance for Doubtful Accounts:			
December 31, 2007	0	(122,874)	(122,874)
Balance on December 31, 2007	\$ 193,059	142,240	335,299
Less Portion Received by February 28, 2008	(4,227)	(5,956)	(10,183)
Non-Current Notes Receivable	\$ 188,832	136,284	325,116

The following are the scheduled amounts of notes receivable principal coming due for the calendar years ending:

	General Fund	I.R.P. Revolving Fund	Total (Memorandum Only)
December 31, 2008	\$ 28,204	42,086	70,290
December 31, 2009	24,951	31,454	56,405
December 31, 2010	26,358	22,855	49,213
December 31, 2011	23,992	15,096	39,088
December 31, 2012	20,778	11,909	32,687
December 31, 2013 and After	68,776	18,840	87,616
	<u>\$ 193,059</u>	<u>142,240</u>	<u>335,299</u>

Loans are carried as notes receivable until deemed uncollectible. During 2007, there was no notes receivable formally written off. However, as of December 31, 2007, there are three I.R.P. Revolving Fund notes receivable which total \$122,874 which there is a high likelihood that these notes will be uncollectible due to the circumstances of each note. An allowance for doubtful accounts of \$122,874 has been recorded as of December 31, 2007 to reflect this. In addition, as of December 31, 2007, there were \$4,369 in I.R.P. Revolving Fund notes receivable principal payments (which is made up of two notes that total \$4,351 that were over ninety days behind and one note in the amount of \$18 that was under ninety days behind) and \$2,318 in General Fund notes receivable principal payments (which is made up of two notes that total \$1,320 that were over ninety days behind and one note in the amount of \$998 that was under ninety days behind) that were due but had not been paid and no formal extension had been approved by the LCEDC's officials. Also, please see Note 9 for possible uncollectible notes receivable amounts that may occur in 2008.

5) Notes Payable

The LCEDC as of December 31, 2007 had borrowed \$400,000 from the U.S.D.A./Rural Development Intermediary Relending Program. Under terms of the I.R.P. Loan Agreement dated April 10, 1995, interest at the rate of 1% per annum on the unpaid balance is due on April 10 of each year, with principal payments starting on April 10, 1999 payable in 27 equal annual amortized payments with any remaining balance due and payable 30 years from the date of the note.

During 2007, \$2,924 was paid for interest due and payable and \$14,056 in principal amount was retired on this note payable. The current year principal and interest, as well as prior years' principal and interest, has all been paid by the Intermediary Relending Program Revolving Fund.

The Consortium has pledged as collateral for the note all assets of the Intermediary Relending Program Revolving Fund and all collateral obtained by the Consortium as a result of Intermediary Relending Program activities.

A summary of the Consortium's December 31, 2007 Intermediary Relending Program indebtedness is as follows:

Calendar Year Ending December 31	Interest Rates	Principal	Interest	Total
2008	1%	\$ 14,196	2,784	16,980
2009	1%	14,338	2,642	16,980
2010	1%	14,481	2,499	16,980
2011	1%	14,626	2,354	16,980
2012	1%	14,773	2,207	16,980
2013-2017	1%	76,109	8,791	84,900
2018-2022	1%	79,991	4,909	84,900
2023-2025	1%	49,866	1,000	50,866
Total		\$ 278,380	27,186	305,566

6) Changes in Long-Term Liability

A summary of changes in the long-term liability for the calendar year ended December 31, 2007 is as follows:

	Intermediary Relending Program Notes Payable
Balance January 1, 2007	\$ 292,436
Additions	0
Decreases	(14,056)
Balance December 31, 2007	\$ 278,380

7) Debt Reserve and Loan Loss Reserve Accounts

The I.R.P. Pledge and Security Agreement on the U.S.D.A./Rural Development Intermediary Relending Program loan requires that the Consortium establish a debt reserve account within the I.R.P. Revolving Fund at the rate of \$1,698 annually starting April 10, 1996 until the debt reserve account reaches the sum of \$16,980 or such higher amount agreed to with the U.S.D.A./Rural Development and shall be resumed at any time when necessary because of disbursements from the debt reserve account to restore it to the agreed upon sum. Withdrawals from the debt reserve account shall be used solely for the purpose of paying the interest on and the installments of principal of the I.R.P. promissory note when there are insufficient funds in the general operating account of the I.R.P. Revolving Fund to meet the payments then due.

The agreement also requires an annual transfer to a loan loss reserve account within the I.R.P. Revolving Fund equal to a rate of not less than 1% of the outstanding principal balance of recipients' loans with the initial transfer made as of April 10, 1996. Annual transfers will be made until the balance of such account reaches \$40,000 or such higher amount later agreed to with the U.S.D.A./Rural Development and shall be resumed at any time when necessary because of disbursements from the loan loss reserve account to restore it to the agreed upon sum. Withdrawals from the loan loss reserve account shall be used only for the purpose of transfers to the general operating account of the I.R.P. Revolving Fund of amounts not more than the amount of actual loan losses and for the purpose of paying the interest on and the installment of principal of the I.R.P. promissory note when there are insufficient funds in the general operating account of the I.R.P. Revolving Fund and the debt reserve account to meet the payments then due.

Investment income derived from each account shall remain a part of said account and shall be used only for the purposes for which such accounts may be used except when the amounts in the debt reserve account exceed \$16,980 and/or the amount in the loan loss reserve account exceed \$40,000 (whether due to investment earnings or other deposits from any source) then any and all of such excess shall accrue to and be deposited in the general operating account of the I.R.P. Revolving Fund.

The debt reserve and loan loss reserve accounts are reflected in the Statement of Net Assets by reporting the cash set aside for these accounts separately. These accounts are reported in the Governmental Funds Balance Sheet by showing the cash set aside for these accounts separately and by also reserving the appropriate fund balance for each account. The December 31, 2007 balance in the debt reserve account was \$16,980 (shown as fund balance – reserved for debt reserve) and the December 31, 2007 balance in the loan loss reserve account was \$40,000 (shown as fund balance – reserved for loan loss reserve).

The debt reserve and loan loss reserve accounts for 2007 were set up by bookkeeping entries and by trying to make sure this much cash was always maintained in a particular bank account for the Intermediary Relending Program Revolving Fund. The required reserve amounts were sufficient for the entire calendar year of 2007.

8) Risk Management

The Lyon County Economic Development Consortium is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 556 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The Consortium's general liability and wrongful acts for officials liability contributions to the risk pool are recorded as expenditures from its General Fund at the time the insurance coverage is utilized by the Consortium. The Consortium's annual cash basis contribution to the Pool for the calendar year ended December 31, 2007 was \$889.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The Consortium does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at December 31, 2007, no liability has been recorded in the Consortium's financial statements. As of

December 31, 2007, settled claims have not exceeded the risk pool or reinsurance company coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The Consortium also carries commercial insurance purchased from another insurer for coverage associated with fidelity bonding in the amount of \$300,000 (\$143 was paid on a cash basis in premiums during 2007 for this coverage). The Consortium assumes liability for any claims in excess of the coverage limitation. Settled claims resulting from this risk have not exceeded any commercial insurance coverage that was in place in any of the past three calendar years (there were no claims at all during the last three years).

9) Contingency

The collection of two notes receivable to one business in the amount of \$29,438 that are in the Intermediary Relending Program Revolving Fund may be difficult due to circumstances that have arisen in 2008. The UCC filings on these notes receivable are expired. At this time, no estimate of any write-off or the likelihood of a write-off is determinable.

10) Subsequent Events

Events that have occurred subsequent to December 31, 2007 include the following:

- (a) In May 2008, a \$50,000 note receivable was approved to be issued from the Intermediary Relending Program Revolving Fund. The note receivable is to carry a 5.5% interest rate and is to be paid back over 10 years.
- (b) In August 2008, a \$50,000 note receivable and a \$35,000 note receivable were approved to be issued from the Intermediary Relending Program Revolving Fund. The notes receivable each carry a 5.5% interest rate and are to be paid back over 10 years.
- (c) In August 2008, a \$15,000 note receivable was approved and issued from the General Fund. The note receivable carries a 5.5% interest rate and is to be paid back over 4 years.

11) Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Officials/Members of the Lyon County Economic Development Consortium:

We have audited the accompanying financial statements of the governmental activities and each major fund of the Lyon County Economic Development Consortium (LCEDC) as of and for the year ended December 31, 2007, which collectively comprise the Consortium's basic financial statements listed in the table of contents and have issued our report thereon dated October 24, 2008. We conducted our audit in accordance with U. S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the LCEDC's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the LCEDC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the LCEDC's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or volunteers, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the LCEDC's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of the LCEDC's financial statements that is more than inconsequential will not be prevented or detected by LCEDC's internal control. We consider the deficiencies in internal control described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the LCEDC's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items 07-A, C, D, E, F and G are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the LCEDC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed two instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings. We also noted certain immaterial instances of non-compliance or other matters that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Consortium's operations for the year ended December 31, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Consortium. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The LCEDC's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Consortium's responses, we did not audit the LCEDC's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials/members and citizens of members of the Lyon County Economic Development Consortium and other parties to whom the LCEDC may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the LCEDC during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

De Noble & Company PC

De Noble & Company PC
Certified Public Accountants

October 24, 2008

Lyon County Economic Development Consortium
Schedule of Findings
For The Calendar Year Ended December 31, 2007

Findings Related to the Financial Statements:

REPORTABLE CONDITIONS:

07-A Segregation of Duties – During our review of the internal control structure, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same individual. This segregation of duties helps to prevent losses from individual error or dishonesty and therefore maximizes the accuracy of the Consortium's financial statements. We noted that generally one individual has control over most business transactions (banking transactions, accounting functions, etc...). Also, financial duties are not rotated at any time during the year.

Recommendation – We realize that with no office employees and only using volunteers, segregation of duties is difficult. However, the Consortium should review its operating procedures to obtain the maximum internal control possible under the circumstances. To provide additional control, the officials should review financial transactions, reconciliations and reports. Such reviews should be evidenced by initials or signature of the reviewers and the dates of the reviews. Also, financial duties should be rotated for a period of time during the year.

Response – We are attempting to review the financial records regularly. We will make an earnest effort to evidence the reviews by initialing and dating the reviews.

Conclusion – Response accepted. It is important that you attempt to implement this recommendation.

07-B Notes Receivable Related Proceeds – We noted instances of late payments being made on notes receivable after the scheduled dates, but the payments were amortized just as if the payments were all timely made on a monthly basis. The result of this is the Consortium is losing out on interest income. This treatment is being applied on almost all late note payments.

The Consortium does not have an established system to support how loan documentation fees are to be billed to loan recipients.

Recommendation – The Consortium needs to set a formal written policy on how late payments are to be amortized and loan documentation fees are to be billed to loan recipients. The Consortium should also consult with an attorney as to any legal consideration these issues could create.

Response – The Board will consider this recommendation.

Conclusion – Response accepted. It is important that you address this recommendation and involve legal counsel.

**Lyon County Economic Development Consortium
Schedule of Findings
For The Calendar Year Ended December 31, 2007**

- 07-C Manual Records Storage/Written Disaster Recovery Plan – The Consortium does not have any standard policies or procedures regarding storage of manual records at more than one location. The Consortium does not have a written disaster recovery plan.
- Recommendation –Manual records should be evaluated for importance and duplicate copies stored at an additional location. A written disaster recovery plan should be considered and adopted.
- Response – We will attempt to implement this recommendation.
- Conclusion – Response accepted. It is important that this recommendation is evaluated and implemented.
- 07-D Note Receivable Files (General Fund Notes) – One note receivable file for a General Fund note receivable was not available for our review. One General Fund note receivable has an expired UCC filing.
- Recommendation – The note receivable file that was unavailable for our review needs to be located and reviewed to make sure all contents are present and that all necessary documentation is current (example: security interests, proof of insurance, etc...). A system needs to be developed to make sure all loan files are present, safeguarded and kept current. The Consortium should renew the expired UCC filing.
- Response – We will attempt to implement your recommendation.
- Conclusion – Response accepted. It is important that a reliable file system is developed and the file being discussed is placed with all the other loan files. UCC filings should be kept current.
- 07-E Financial Reporting – During the audit, we identified material amounts of fund balances/net assets classifications that were not recorded properly. Adjustments were subsequently made by the Consortium to properly include these amounts in the financial statements.
- Recommendation – The Consortium should implement procedures to ensure fund balances/net assets are properly classified for the Consortium’s financial statements.
- Response – We will attempt to implement your recommendation.
- Conclusion – Response accepted.

**Lyon County Economic Development Consortium
Schedule of Findings
For The Calendar Year Ended December 31, 2007**

07-F Invoices – We noted several disbursements which had no supporting documentation/invoices in the Consortium's files.

Recommendation – All claims should have adequate supporting documentation/invoices before being approved for payment. The supporting documentation/invoices should be retained and kept on file.

Response – We will make sure all supporting documentation is retained on file in the future.

Conclusion – Response accepted.

07-G Management Procedures – Based on findings during the audit, we identified that there appears to be a lack of oversight by management over developing internal control. Compliance and antifraud procedures and monitoring existing procedures that are in place to ensure the procedures are enforced.

Recommendation – LCEDC management needs to establish policies and procedures that ensure effective internal control, compliance and antifraud procedures are in place and monitored on a regular basis. LCEDC management needs to review any audit findings identified and assess the level of risk associated with each finding and incorporate this assessed level of risk into its development of policies and procedures.

Response – We will address your recommendation.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

07-A-Non-Compliance Ultimate Recipients Insurance Coverages/UCC Filings – We noted that the Consortium does not have proof of insurance on several of the businesses that have outstanding notes receivable to the Consortium. Also, two Intermediary Relending Program Revolving Fund notes receivable that are to one business have expired UCC filings. These issues are a violation of the Intermediary Relending Program loan agreement. The Consortium should maintain current proof of insurance and keep UCC filings up-to-date as a normal practice regardless of the Intermediary Relending Program loan agreement.

Recommendation – Proof of insurance and UCC filings on all businesses that have outstanding notes receivable to the Consortium should be brought up-to-date and kept current. A system needs to be developed that ensures proof of insurance is obtained before notes receivable are formally issued and that current, accurate insurance and UCC filing records are being maintained and monitored regularly. If monitoring of these issues is to

Lyon County Economic Development Consortium
Schedule of Findings
For The Calendar Year Ended December 31, 2007

cease once a note receivable drops below a certain level, the Board and the U.S.D.A./Rural Development must formally approve this.

Response – We will work toward fully implementing your recommendation.

Conclusion – Response accepted. It is very important that this recommendation is implemented.

07-B-Non-Compliance Fidelity Bond Coverage – The Consortium carries fidelity bond insurance coverage on the Treasurer and Secretary for the Consortium only. None of the other officials (President, Vice-President and Financial/Loan Advisor) are covered by fidelity bond insurance. This appears to be a violation of the Intermediary Relending Program loan agreement. The Consortium should consider carrying fidelity bond insurance coverage on these other officials, regardless of loan agreement requirements, at all times.

Recommendation – The Consortium should discuss with the U.S.D.A./Rural Development as to who has to have fidelity bond insurance coverage to be in compliance with the Intermediary Relending Program loan agreement. The Consortium should get this in writing. The level of fidelity bond insurance coverage the Consortium needs to meet the Intermediary Relending Program loan agreement should be viewed as the minimum level needed. The individuals covered and the amount of coverage acquired should be analyzed annually to ensure that coverage is adequate for current operations.

Response – We will address this recommendation.

Conclusion – Response accepted. Please do address this recommendation.

**Lyon County Economic Development Consortium
Schedule of Findings
For The Calendar Year Ended December 31, 2007**

Other Findings Related to Required Statutory Reporting:

- 07-1 Certified Budget – The Consortium does not adopt a formal financial budget. The Consortium prepares a budget for the Intermediary Relending Program Revolving Fund intended only to meet loan requirements; this budget is not meant for financial analysis.
- 07-2 Questionable Expenditures – No reportable expenditures were noted that we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
- 07-3 Travel Expense – No expenditures of Consortium money for travel expenses of spouses of Consortium officials/members were noted.
- 07-4 Business Transactions – No business transactions between the LCEDC and LCEDC officials/members were noted.
- 07-5 Bond Coverage – Please see finding related to the financial statements 07-B-Non-Compliance for comment.
- 07-6 Board Minutes – Most of the disbursements, regardless what the amount was on any particular disbursement, and an interfund loan in the amount of \$7,000 from the Intermediary Relending Program Revolving Fund to the General Fund during calendar year 2007 were never approved by the Board in the minutes.

No formal Board approval was noted in the minutes for amending one of the notes receivable terms and amortization schedule. When a note receivable that has been offered to a business is not accepted by the business or when the offer for a note receivable has been withdrawn by the Board, there is not always mention of this in the minutes. Applications that are not approved are no longer assessed the application fee. This change was never formally approved in the minutes.

The Consortium is required to have at least four Board meetings per year per the Consortium’s adopted by-laws, but the Consortium only held three Board meetings in 2007. The Board minutes should be more detailed than the minutes currently are. Minutes of prior meetings are not always being approved. The Board minutes are not always being published as required. The vote of each member is not identifiable in the Board Minutes. Please also see “Finding Related to the Financial Statements 07-B” for a related comment.

Lyon County Economic Development Consortium
Schedule of Findings
For The Calendar Year Ended December 31, 2007

Recommendations – Even though the treasurer is given authority to automatically pay bills that are under \$500, the Board should review and approve all bills at the Board meetings. All interfund loans need to be formally approved in the Board minutes.

The Board needs to approve changes or amendments made to notes receivable in the minutes. When an offered note receivable is not accepted or the offer has been terminated by the Board, the declining/termination of this note receivable offering should be noted in the Board minutes. The Board needs to approve in the minutes what the policy is going to be regarding the application fee.

The Board should be in compliance with the Consortium's by-laws regarding the number of meetings to be held each year. Please attempt to create and retain more detailed minutes. Minutes of the prior meeting should always be formally approved. The minutes should always be published in accordance with Senate File 2410. The vote of each member should be identifiable in accordance with Chapter 21 of the Code of Iowa.

Response – We will work toward implementing most of these recommendations regarding the Board minutes. We will consider the publication of minutes requirement.

Conclusion – Response accepted. Please attempt to implement all of these recommendations.

07-7 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Consortium's investment policy were noted. However, please see Finding 07-8 next for a related issue.

07-8 Official Depositories – A resolution naming official depositories has been adopted by the Consortium. The maximum deposit amounts stated in the resolution were not exceeded during the calendar year ended December 31, 2007, except for deposits at Frontier Bank. The maximum authorized amount of \$100,000 was exceeded during calendar year 2007 from January 1st through January 24th and August 30th through September 14th.

Recommendation – A new resolution in amounts sufficient to cover anticipated balances at all approved depositories should be adopted by the Board or the amount at each depository needs to be monitored to avoid exceeding the approved amount.

Response – We will comply with this in the future.

Conclusion – Response accepted. Please attempt to implement this recommendation.

Lyon County Economic Development Consortium
Schedule of Findings
For The Calendar Year Ended December 31, 2007

07-9 Proof of Tax Exempt Status – The Consortium has not filed for proof of tax exempt status as issued by the Internal Revenue Service. The Consortium is not filing Form 990.

Recommendation – The Consortium should work on getting tax exempt status recognition from the Internal Revenue Service. The Consortium needs written documentation that Form 990 is not required; otherwise, Form 990 should probably be filed.

Response – We were working on finalizing some issues first. Once the issues are resolved, we will file the necessary paperwork to get tax exempt status approval. We want to file the application in a manner and a time frame that is least costly for the Consortium. We will file a Form 990 if the Internal Revenue Service informs us that filing this form is required.

Conclusion – Response accepted. Receiving proof of tax exempt status is very important.

07-10 Federal Financial Assistance Program – The following instances of non-compliance with the Intermediary Relending Program were noted (in addition to the security interest filings and ultimate recipients insurance coverages non-compliance and fidelity bond coverage non-compliance already discussed):

1. The Consortium is late in issuing the following report to the U.S.D.A./Rural Development:
 - a. The audit was not issued within 90 days of the audit period. However, the U.S.D.A./Rural Development has accepted that audited financial statements will be filed late every year as a cost saving measure for the Consortium.
2. The Consortium is currently waiving on all notes receivable the following provisions of the work plan submitted to the U.S.D.A./Rural Development:
 - a. Late payment charges of 10%.
 - b. The loan servicing fee of .5% per annum on the unpaid balance of the loans as determined at five year anniversary intervals.
 - c. Deposit fees of 1½% of I.R.P assistance requested.

The Consortium did obtain written approval from the U.S.D.A./Rural Development to waive these provisions on an as-needed basis. However, this approval was contingent upon the Consortium adequately documenting in each ultimate recipient's file the circumstances for the waiver or submitting a revised written work plan. There is no documentation in any ultimate recipient's file that supports the circumstances for the waiver of these provisions and no proof that a revised written work plan was submitted.

**Lyon County Economic Development Consortium
Schedule of Findings
For The Calendar Year Ended December 31, 2007**

3. The Forms FMHA 1951-4 filed for June 30, 2007 and December 31, 2007 contained some errors as follows:
 - a. The following sections reported amounts that vary from the actual figures:
 1. Summary note receivable loan activity.
 2. Available assets for relending.
 3. Balance sheet.
 4. Income and expense statement.
 5. Status of notes.
 - b. The type of collateral on several ultimate recipient loans were identified as equipment, when in actuality, there are mortgages for collateral.
4. The Consortium did not properly report to the U.S.D.A./Rural Development all instances when an ultimate recipient was more than ninety days past due with a payment.

Recommendation – The Consortium should consult with Robin Templeton of the U.S. Department of Agriculture/Rural Development concerning the disposition of these matters.

Response – We will be in contact with Robin Templeton to determine the disposition of these matters. We will attempt to provide all the necessary information that is requested by the U.S.D.A./Rural Development in an accurate manner in the future.

Conclusion – Response accepted. Please address these Intermediary Relending Program issues.

07-11

Electronically Retained Check Images – The back (endorsement) side of electronically retained check images of checks that have cleared the bank are not being received and maintained as required by Chapter 554D.114(5) of the Code of Iowa.

Recommendation – The Consortium should be receiving and maintaining the back (endorsement) side of electronically retained check images of checks that have cleared the bank.

Response – We will comply with the Iowa Code in the future.

Conclusion – Response accepted.

Lyon County Economic Development Consortium

Staff

This audit was performed by:

David De Noble, CPA, Senior Auditor/Reviewer
James Fisher, CPA, Senior Auditor

De Noble & Company PC
Certified Public Accountants